

# The Highland Council

Agenda Item	<b>7</b>
Report No	<b>HC/46/23</b>

**Committee:** Highland Council

**Date:** 14 December 2023

**Report Title:** Budget Update

**Report By:** Head of Corporate Finance

## **1. Purpose/Executive Summary**

- 1.1 In the finance report to Council in October 2023, Council Officers projected a three-year funding gap of £108 million. This was based on a prudent set of financial assumptions and assessment of information at that time. Members will note that the budget gap forecast, and the basis of this report is being prepared in advance of the publication of Scottish Government's draft budget on 19 December, which may have further implications to be considered in future reports.
- 1.2 This report provides an update on what was brought to Council in October regarding the current revenue position of the Council and forecast gap; progress being made in identifying saving propositions, fiscal flexibilities and other means to address the budget gap, as well as initial identification of budget pressures anticipated for 2024/25. An updated budget timetable is also included.
- 1.3 Within this report, Members are asked to consider the update provided, and a number of key budget decisions. This includes Council Tax fiscal flexibilities relating to second homes, and a Reserves Strategy for approval which will support the Council's budgetary planning, financial resilience and sustainability.
- 1.4 This report, alongside other key reports on this Council agenda, provide update regarding key plans and actions which will support the Council in addressing the forecast budget gap and achieving a financially sustainable position.
- 1.5 The report also provides initial feedback in relation to budget engagement and the Council's budget consultation and budget simulator which were launched on 17 November 2023. The intent is to allow these consultation and engagement tools run for a further period of time, with further report in the new year to capture the final position. Members will note a significant level of budget information captured, and further work underway to analyse and present back to members.
- 1.6 An update on actions regarding the HRA budget and financial sustainability is included in this report.

## 2. Recommendations

### 2.1 Members are asked to:

- i. **Note** the information set out in section 4 relating to the Council's forecast budget gap, underlying assumptions and risks;
- ii. **Note** the update provided regarding actions to address the budget gap over a three-year budget planning period, and the level of targeted measures from fiscal flexibilities and budget savings;
- iii. **Note** the update regarding services pressures for 2024/25 – 2026/27, work ongoing to capture, quantify and assess these, and for information the list of 2023/24 agreed service pressures enclosed for information as **appendix 1**;
- iv. **Note** the update on fiscal flexibilities and further work ongoing, elements of which will form options for Member consideration and decision on 29 February 2024;
- v. **Agree**, subject to enabling legislation, to implement the discretionary 200% charge on Council Tax on Second Homes with effect from 1 April 2024, or as early as permitted in terms of legislation;
- vi. **Note** the section on income generation, as a key strand of the Council's budget planning approach, and cross-reference to other business on this Council agenda relation to income from fees and charges, income from tourism, and income from green energy and renewables;
- vii. **Note** the interim feedback from the Council's budget consultation and budget simulator activity, including feedback as set out in **appendix 2**, with further analysis and briefing/reports to Members in the new year;
- viii. **Agree** to adopt the Reserves Strategy as set out in **Appendix 3**;
- ix. **Note** the update provided regarding the Housing Revenue Account; and
- x. **Note** the updated budget timetable as set out at **Appendix 4**.

## 3. Implications

3.1 Resource – this report sets out the forecast budget gap on a three-year planning basis, and the assumptions and risks relating to that forecast. The reports sets out update on the range of budget actions and activity underway to address the budget gap, including the use of fiscal flexibilities, income generation, budget saving targets, and initial feedback from budget consultation and engagement. This report represents a key report for consideration, building towards formal budget and council tax setting scheduled for Council on 29 February 2024. In relation to specific decisions, including that related to council tax on second homes, the report details the financial implications of that recommendation.

### 3.2 Legal:

(i) In terms of Section 93 of the Local Government Finance Act 1992 ('the 1992 Act') Members have a duty to set both Council Tax and therefore by implication the next year's budget before 11 March in any year. Section 93(4) of the 1992 Act states "in calculating such part of the total estimated expenses to be incurred by a local authority as falls to be met out of council tax, account shall be taken of any means by which those expenses may otherwise be met or provided for'.

(ii) Therefore, Council is required to estimate how much income it will receive from grant allocations, what its expenditure might be, what other budgetary actions can be taken, before then agreeing the Council Tax rate to fund the difference. This process is commonly referred to as setting a balanced budget.

(iii) Section 95 of the Local Government (Scotland) Act 1973 (the 1973 Act) states, '...every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs.' In The Highland Council the 'proper officer' in terms of the 1973 Act is the Head of Corporate Finance (E Part IV Scheme of Delegation and Administration).

(iv) The Council's financial arrangements must conform with the governance requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code'). Therefore, the proper officer must ensure that the Council corporately and the Officer himself discharges their respective obligations and responsibilities.

(v) The Council is scheduled to meet on 29 February 2024 to set budget and council tax for 2024/25.

(vi) Recommendation v of this report relating to Council Tax on second homes is brought before Members for decision, in anticipation of enabling legislation being enacted by Scottish Government.

- 3.3 Community (Equality, Poverty, Rural and Island) – there are no specific implications arising from the recommendations within this report. This report provides feedback on budget consultation and engagement activity undertaken, with more detailed feedback and reporting in the new year once the consultation activity has been fully consolidated and analysed.
- 3.4 Climate Change / Carbon Clever – no specific implications to highlight from the recommendations within this report. Future budget decisions to be made on 29 February could be expected to potentially have implications which will be assessed and considered as part of decisions at that time.
- 3.5 Risk – this report provides a comprehensive narrative on the Council's financial position, risks relation to that position, and the actions and mitigations being taken forward. As noted in the report, there remain a number of material risks relating to the financial assumptions within this report, and potentially the most significant of which is the currently unknown level of Scottish Government grant settlement for 2024/25 and the implications which may result. Section 4 of this report provides further commentary on budget assumptions and risks.
- 3.6 Health and Safety (risks arising from changes to plant, equipment, process, or people)
- 3.7 Gaelic – no specific implications to highlight.

#### **4. Budget Gap Forecast 2024/25 – 2026/27**

- 4.1 Members will be well aware of the significant financial challenge faced and level of forecast budget gap for the forthcoming three-financial years, being £108.3m based on current estimates. Past reports have also set out plans, actions and timetables regarding the Council's budget planning and the need to reach a financially sustainable position.
- 4.2 Reports to Council in September and October have set out the assumptions and method used to estimate the forecast budgetary gap over the next three financial

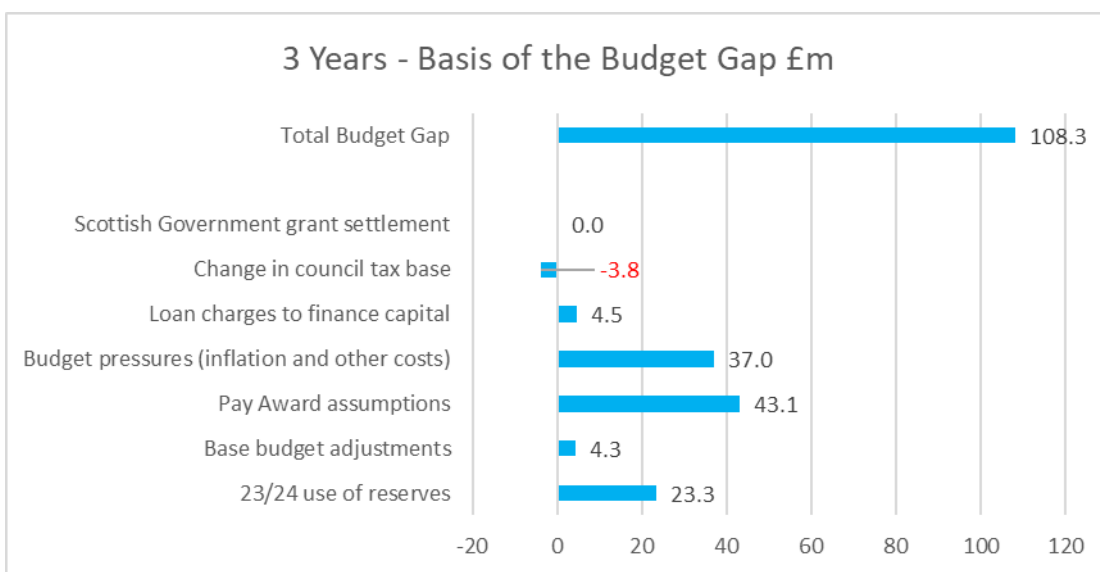
years. To recap, the level of gap used for the Council's budget planning is as shown below.

	24/25	25/26	26/27	Total
Forecast budget gap	£61.7m	£25.0m	£21.6m	£108.3m

4.3 The main factors in the higher level of gap in year one (24/25), relative to that in the following two years are twofold:

1. The legacy impact of £23m of planned use of reserves to support the current year 2023/24 budget, the impact of which was to defer the requirement to achieve sustainable recurring budgetary measures at that level into 2024/25.
2. The higher level of inflation expected in 2024/25 relative to the latter two years, and the consequential implication for assumed provision for pay awards and pressures. With the assumption that inflation reduces by years two and three of the forecast in line with economic forecasts.

4.4 The main elements making up the three-year budget gap are summarised in the graphic below.



4.5 The forecast gap is just that, and based on a range of underlying assumptions. Many of which have some level of risk and uncertainty. This is mitigated through the rationale and basis as described below, plus the planned mechanisms for addressing the budget gap as set out in the next section.

Budget Assumption	Risks	Mitigations	Risk Impact
Base budget assumptions	Base budget adjustments differ from assumptions, or other adjustments are omitted.	Adjustments to date are based on known or expected events, and detailed calculations of financial effect. There is a process of ongoing	Will vary depending on the factors and assumption basis.

		review to identify and capture any further adjustments.	
Pay Awards	Pay awards and/or the cost to the Council of funding these are higher than estimated.	Ongoing review of assumptions and sense-check relative to other Local Authority planning assumptions.	Every 1% +/- has a c£4m impact.
Pressures	Pressures vary from current estimates, pressures are higher, new or unforeseen events arise and are not captured in the budget process. Inflation is higher than estimated.	Review and scrutiny process with ECOs and Service teams for pressures. Ongoing review of 23/24 savings delivery and budget monitoring. Maintenance of adequate level of reserves for any unforeseen events.	Any cost would vary depending on risk and circumstance.
Loan Charges	Risk that loan charge costs vary from estimates, due to changes in capital expenditure levels or profile, or changes to interest rate costs.	Known and agreed capital programme underpins assumptions. Ongoing review of capital programme delivery and spend profile. Ongoing review of Treasury Management activity and assessment of interest rate risks and opportunities.	Any cost would vary depending on risk and circumstance.
Scottish Government grant settlement (SG)	Risk that the impact for Highland varies from the flat cash 0% assumption, either due to the quantum of Local Government settlement, the distribution impact, or any requirements from SG regarding policies and use of funds.		Every 1% +/- has a c£6m impact

4.6 All budget assumptions are under regular and ongoing review. The most notable upcoming factor which may lead to further review of assumptions will be the Scottish Government draft budget for 24/25 to be published on 19 December. With it recently being confirmed that the Council can expect to receive the relevant Local Government Finance Circular, providing the Council's proposed grant position for 24/25, on 21 December. Past experience does however suggest it may be some time, possibly weeks following the announcement before a fuller understanding of implications is known and further detail and reconciliations are available. A settlement which varied significantly from the budget planning assumption, and in particular a cash reduction in grant settlement, were that to arise, would have a significant impact on budget assumptions and in particular implications for the 24/25 budget planning. This

represents a material risk until the grant settlement is notified and the impact is assessed.

## 5. Addressing the Budget Gap

5.1 The Council has, in past reports, recognised the scale of the budget gap being faced, and the need to take a multi-year financial planning approach. Past reports have also set out a range of the types of action and planning which will underpin the Council's means of closing the gap. These include:

- Review of and any changes to budget assumptions
- Corporate financial solutions and fiscal flexibilities
- Maximising income generation opportunities
- Redesign of service delivery
- Delivery of savings
- Council Tax

5.2 Officers have progressed a range of actions across these different categories, with this report, and other reports on the agenda for this Council meeting, providing further update on relevant matters.

5.3 Members have been provided the opportunity to attend budget briefings to hear from Officers outwith the formal Committee and Council meeting cycle, and Members will recall from those briefings of the following elements of budget strategy, and the potential target levels the Council may need seek to achieve a balanced budget position. The table below provides a current assessment of the potential targets against the different budget measures.

<b>Headline Budget Gap</b>		<b>3 Year Total</b>	<b>2024/25 Single Year</b>
		<b>£108.3m</b>	<b>£61.7m</b>
Base budget assumptions	Potential reduction in gap through revised pay and pension assumptions	-£6.9m	-£6.1m
Fiscal flexibilities	Potential income and other opportunities arising from: Council tax on 2 <sup>nd</sup> homes, NDR empty property relief scheme, PPP accounting flexibility, treasury and debt management, TVL Visitor Levy.	-£24.0m	-£11.8m
Budget Savings	Target <b>minimum</b> total level of savings	-£55.0m	-£25.7m
<b>Potential revised budget gap if these targets are realised</b>		<b>£22.4m</b>	<b>£18.1m</b>
Council Tax	The level of additional income over the three-year period, resulting from the level of council tax set	Tbc	Tbc

5.4 The table above demonstrates that based on current targeted level of savings, there would still be a significant residual position which would be assumed to be addressed through council tax. Members will note that due to the higher level of gap forecast in

year 1, there remains a relatively higher gap in that first year even after targeted levels of savings and other measures. As per briefings to Members, there is the potential for use of reserves, on a prudent and strategy-driven basis, being part of the Council's budget planning. These could only however be used to manage the position over the three-year period, and in particular considering the challenges faced in year 1. Reserves do not reduce the gap overall, do not represent a sustainable budgetary solution, and use of reserves to manage the budget position will reduce reserves available for the Council to utilise for other purposes, including investment and transformation.

- 5.5 It is important to emphasise that the figures represented above are **targets** at this time. The level of gap could potentially alter, particularly as a result of the Scottish Government grant settlement, once known. **The figures shown against fiscal flexibilities and service savings, are target levels.** These targets require to be addressed through the development of specific proposals to at least those target levels, and in turn consideration of these proposals by Members on 29 February 2024. This report provides further update on these aspects. Subject to the options to be considered by Members in February, that would in turn allow Members to determine their council tax position and set a firm balanced budget for 2024/25, and indicative positions for years two and three. Members will recall from Member briefings that the level of saving to be targeted was intentionally at a level which would potentially give Members scope and choice across service saving propositions and council tax increase scenarios over the three-years.
- 5.6 Members will note from this report that the Council has made a prudent assumption on the potential level of pressures that may need considered within the budget plan. For the purposes of the budget gap estimate, the budget pressures provision of £15m/£12m/£10m across the 3 years is an estimate, pending detailed analysis of service and other pressures, and formal consideration by Members on 29 February. The table below sets out the likely categories and types of pressure which could be expected to come forward for consideration, with Officer work identifying and assessing these at this time. The consideration of budget pressures is a key part of the Council's budget planning, to ensure that cost and other pressures are considered and robust budget estimates are prepared. It is also the case that the more that pressures can be reduced and mitigated, is another means to help close the budget gap.

Potential pressure areas 2024/25 – 2026/27:

- Contract indexation including: waste contracts, school and public transport contracts, property maintenance contracts, PPP contracts, ICT contracts and licences.
- Goods and services inflation including: road materials and salt supplies, fleet leasing and fuel supplies.
- Corporate utilities prices and contracts, including Energy and Water.
- Partnerships and other contracts resulting in possible prices rises or pressures.
- Non-domestic Rates poundage increase and impact on council properties.
- Current year (2023/24) underlying budget pressures and any consequence into 2024/25 or beyond.
- Legislative changes and new burdens including Persistent Organic Pollutants (POPs) implications for waste collection and recycling.

Enclosed as **appendix 1** for information, is the list of approved pressures for 2023/24, the current financial year. Given the prevailing level of inflation, pressures in that year

were considerably higher than past precedents, or assumed levels going forward. It nonetheless gives an indication of the type of emerging pressures which may arise in a given financial year.

## **6. Fiscal Flexibilities – PPP**

- 6.1 Past reports to Council have highlighted to Members an accounting flexibility introduced by Scottish Government during the Covid-19 period, which provides an opportunity to amend the time period over which the accounting cost for school PPP and similar contracts is spread, to align that time period with the expected useful life of the assets (which is longer than the contract period). The last year in which the Council could elect to use this flexibility is the current financial year, 2023/24. Beyond which the opportunity to use the flexibility would not exist.
- 6.2 Council officers are working with LINK, the Council's Treasury Advisor to prepare and conclude the modelling, analysis and impact of the potential accounting changes, and this will come forward to Council for consideration, with there to be a briefing of all Members in advance of any decision being made. There are 3 contracts in scope for the accounting flexibility, and there are the Council's Schools PPP1 and PPP2 contracts, and the Wick Campus contract. All three of which are private financed school projects.
- 6.3 The accounting flexibility will represent a significant financial matter for the Council to consider, and the Scottish Government Finance Circular which relates to this matter is clear it requires a full Council decision to implement the flexibility. The flexibility, were it to be taken, would represent an accounting change only i.e. it would not alter the contracts with the Companies involved, nor would it amend the payments due or timing of those to those Companies. It would simply represent an internal accounting adjustment within the Council, and as such is not a cash transaction. This feature will be of particular emphasis in a final report, given the non-cash nature of the change is such that the use of any benefits which arise from the accounting change (i.e. past or future credits) would carry an implication of additional interest costs to finance their use. The full report and analysis, when it comes forward to members, will set out the opportunities and implications afforded by the flexibility.

## **7. Fiscal Flexibilities – Council Tax and NDR**

- 7.1 Members will be aware that following consultation which the Council responded to, Scottish Government has now stated it will progress the necessary legislation to grant further discretionary powers to Council's regarding the levels of council tax levied on second homes. These powers are expected to be available for the coming 2024/25 financial year and as such can be an important budgetary mechanism to reduce the level of budget gap and reduce the level of savings and other measures that will be required.
- 7.2 Through this report, it is recommended that Members agree to the exercise of these powers with effect from 1 April 2024, subject of course to the passing of the necessary legislation.
- 7.3 If approved by the Scottish Parliament, the legislation being taken forward will provide local authorities with discretionary powers to charge a premium of up to 100% on council tax for second homes. The Scottish Government's policy intent from this legislative change is to increase the availability of housing. This legislation would bring



council tax charging for second homes into line with long-term empty properties, which can already be subject to a 100% premium on the full rate of council tax.

- 7.4 The Highland Council has fully exercised the discretionary powers currently available to local authorities, which means that council tax second homes are subject to a 100% charge and long-term empty properties are subject to a council tax premium, resulting in a 200% charge for the respective banding of the property. Should the legislative powers be passed by Parliament, it is recommended that the Council fully applies a premium to council tax second homes, which would have the effect of increasing the council tax charge for these properties to 200% from 1 April 2024 or as early as permitted by legislation. This would bring council tax charges for properties classified as second homes in line with the existing charge for long-term empty properties.
- 7.5 The financial implications of this proposal are estimated to result in an additional income of £5.3m in 2024/25, with it estimated that income could be expected to decline in subsequent years by 5%-6% p.a. as the number of homes liable to the charge may decline, which is the intent behind Government policy.
- 7.6 In addition to Council tax as above, Members will also be aware that on 7 December the Corporate Resources Committee agreed to revise its Non Domestic Rates (NDR) relief scheme for empty properties. This is a further fiscal flexibility which the Council, having utilised, can be considered towards reducing the £108m budget gap for the forthcoming financial years. That scheme change was estimated to generate a net additional income in 2024/25 of £0.511m, and a further £0.565m over the subsequent four financial years.
- 7.7 The combined impact of these two fiscal flexibilities has been assumed within the totals shown in section 5.

## **8. Other Fiscal Flexibilities**

- 8.1 The remaining fiscal flexibilities referred to in section 5 are subject to further ongoing officer work and analysis, and some of which (such as the TVL Visitor Levy) are subject to the passing of legislation currently going through Parliament and are not expected to be relevant for the first year of the Council's budget planning. Further updates and estimates regarding these other flexibilities will be featured in future reports to Council and consideration of the budget position on 29 February 2024.

## **9. Income Generation**

- 9.1 Past reports to Council have highlighted the extent to which income generation will be a key feature of the Council's budget strategy and means to close the budget gap. Members will see from other reports on this agenda key items relating to this topic. The report on Opportunities from Green Energy sets out the range of opportunities the Council is assessing and how these will be taken forward. Where realisable within the three-year budget cycle, it would be expected that the budget report on 29 February contains some specific recommendations for Members to consider in this regard.
- 9.2 The Redesign Board on 4 December also considered a report on Fees and Charges and Tourism Income Generation, setting out the work being taken forward to explore opportunities in this area, and some of the emerging potential budgetary options which Members will have for consideration in setting the budget on 29 February 2024.

9.3 Members will also note from the later section on budget consultation and engagement, the views that have come forward to date regarding income generation and public appetite for increases in charges/further charging.

## 10. Budget Consultation and Engagement

10.1 The Council's budget engagement challenge was launched on 17 November 2023. There were two strands:

- Budget Simulator – allows Members of the public to make choices to try and balance the Council's budget. Focused on the 2024/45 budget, the simulator asks people to reduce different areas of the budget or increase income, through fees and charges or Council Tax, to meet the budget gap of £61.7m. The simulator sets out the implications of any reduction; the greater the reduction, the greater the impact. There is also the option to increase spend in different areas, however any increase will result in a larger gap to fund.
- Budget survey – the survey is a different way for people to have their say. This asks for views on prioritisation of services; what services are most important to people and where there could be reductions. It also seeks views on increases in charges, for new ideas on income generation and how the Council can change what it does. Two separate versions of the survey are available, one for individuals and one for groups and organisations.

10.2 In addition to the above external strands, there is a staff suggestions page, which was launched in October on Staff Connections, to gather views and ideas from staff. Over 150 budget savings suggestions have been submitted to date. Staff have also been encouraged to complete the simulator and survey.

10.3 There have been 429 completed simulator responses received (Friday 8 December), 1,887 individual surveys completed and 28 group surveys. 158 suggestions have been received from staff through the staff suggestions page. The simulator and survey will remain open until Christmas. In particular, this is to support groups to respond over this period.

10.4 A summary of the engagement to date can be found at **Appendix 2** along with emerging messages from the engagement.

10.5 The information that we receive through engagement with the public is extremely important in informing and assisting to support the budget setting process. It must be noted however, as is illustrated in some of the emerging findings, that this also must be balanced with the needs of specific service users who may not, for a range of reasons, engage in this process. This is why service user, Member and partner knowledge will sit alongside the budget engagement findings to shape the savings, income generation and service changes required as part of this process.

## 11. Our Partners

11.1 As detailed elsewhere on this agenda, work has commenced with partners to reset the Highland Outcome improvement Plan. The current financial challenges facing the public sector, in addition to COVID recovery and the cost-of-living crisis, have necessitated that all agencies review their current position and consider refreshed delivery models, redesign of services and ultimately priorities. Only through working in

partnership will effective solutions and responses to these challenges be delivered and therefore a shared framework and agreed actions will ensure partner agencies maximise their resources and reduce duplication.

- 11.2 In parallel with the broader HOIP level discussions, officers are in discussion with key partners, including NHS, High Life Highland, and Early Learning and Childcare PVI partners, regarding the Council's budgetary position and budget planning for 2024/25 and implications for funding arrangements. These matters will be considered as part of the Council's formal budget setting in February 2024.

## 12. Cosla "Councils are Key" Campaign

- 12.1 On 4 December Cosla launched its "Councils are Key" campaign, as part of the Local Government lobbying approach in advance of the Scottish Government draft budget on 19 December. The intent behind the campaign is that "Councils are key to unlocking both the potential and the best outcomes for our local communities but require proper funding to do so."
- 12.2 The publicity and campaign material are available from the following link.  
<https://www.cosla.gov.uk/news/2023/cosla-are-clear-that-councils-are-the-key-to-unlocking-the-best-for-our-communities,-ahead-of-budget-announcement>

## 13. Reserves Strategy

- 13.1 This report introduces a Reserves Strategy for agreement by the Council, to support the Council's in its ongoing financial planning and as part of its adoption and compliance with the Cipfa Financial Management Code.
- 13.2 The strategy builds on existing statutory and Codes of Practice requirements and captures within the strategy what are in the main pre-existing arrangements and practices adopted by the Council. It does however reinforce the need for the Council to prudently manage its reserves position and be clear on the purposes for which reserves are held. Past reports to Council and regular monitoring reports to Corporate Resources Committee have detailed the current reserves held by the Council.

The strategy set out on **appendix 3** relates to General Fund useable revenue reserves, and focuses on the main categories and purposes for which reserves may be held, including:

- The minimum level of General reserve to be held for contingency purposes. With the Strategy maintaining the current Section 95 Officer recommendation of a level equivalent to 3% of the revenue budget being held;
- Earmarked reserves held for other external funding or externally directed requirements e.g. school DSM reserves;
- Earmarked reserves held for the purposes of managing cashflow/budget management timing and carry forward between financial years;
- Earmarked reserves held for investment, re-design and transformation, and recognising this as an important mechanism through which the Council can use its reserves to deliver change and outcomes;

- Reserves held to support budgetary planning and budget setting. Recognising that use of reserves in this manner is not a sustainable approach, and prudent use aligned with medium-term financial planning is necessary.

## **14. Housing Revenue Account (HRA)**

- 14.1 The current state of play with the Housing Revenue Account also requires to be addressed through longer term planning. This is because significant amounts of the HRA goes to funding historic debt.
- 14.2 There are circa 14,850 social houses managed by Highland Council, deriving an HRA income of £63m million. Of this, 42% of that revenue goes to servicing historic debt and cannot be used to address the needs of existing tenants and also can't fund fewer new build projects.
- 14.3 The inability to invest in existing properties to a sufficient standard, leads to challenges in sustaining social housing tenancy and potentially increases the potential for homelessness. Although there may be scope to consider whether loan charge re-profiling or interest rate forecasts may mitigate some of the challenges as part of the 2024/2025 rent-setting process, this is likely to be marginal, and the current and projected level of loan charges pose a significant risk to Highland Council commitments to enhance the energy efficiency of existing stock and to increase the supply of new build units.
- 14.4 Therefore, a longer-term approach is required to address this, and a review is taking place. This review will recommend approving rental increases over a number of years rather than adopting the current strategy of annual increases each January. A report will be brought to Housing & Property Committee in the second half of 2024. This will link to ongoing work to identify the viability of Highland stock and ensure that there is both targeted investment and also option appraisal of where stock may need to be repurposed or disposed.
- 14.5 Further consideration will also be made in regard to the option of renewed lobbying work with the UK Government for either partial debt write-off or approval for a period of debt relief. This lobbying will be on the basis of the unique Highland requirements to facilitate the extensive supply of affordable housing as part of the Inverness & Cromarty Firth Green Freeport developments.
- 14.6 HRA budgets and Council house rents are set separately to the Council's revenue budget and further opportunities to discuss this in greater detail will be provided ahead of the 2024/25 Revenue Estimates proposals to Housing & Property Committee on 31 January 2024.
- 14.7 The 2023/24 tenant rent consultation indicated that 73.47% of respondents indicated that they thought their rent was good value for money. Highland rents remain below the local authority average in Scotland and are significantly lower than housing association average rents. Annual rent increases have remained significantly below inflation though the costs of maintaining and improving Highland stock has been impacted by this particularly in recent years.
- 14.8 The 2024/25 tenant rent consultation is scheduled to end on 11 December and tenants are currently being consulted on a 6.5%, 7.3% and a 7.95% rent increase for 2024/25. Based on current estimates, a 6.5% increase will result in a broadly similar service delivery standard for 2024/25.

## 15. Budget Timetable

- 15.1 An update to the budget timetable considered by Members at their October meeting is attached as **appendix 4** setting out the planned timetable through to budget setting on 29 February 2024. Members will note key dates relating to the Scottish Government draft budget and grant settlement announcement, as well as further planned member briefing and information sharing between now and formal budget setting in February.

Designation: Head of Corporate Finance

Date: 7 December 2023

Authors: Brian Porter, Head of Corporate Finance and Section 95 Officer and Alison Clark, Head of Community Support and Engagement

Background Papers:

Appendices:

Appendix 1: 2023/24 approved budget pressures

Appendix 2: Budget Challenge: Summary of Engagement and Emerging Messages

Appendix 3: Reserves Strategy

Appendix 4: Budget Timetable



2023/24 Budget Pressures (agreedby Council 2 March 2023)

Appendix 1

Service	Activity/Budget Area	Description of Pressure	2023/24 £m	Category
C&P	Fleet	Fuel price increases	0.327	Existing Cost Pressures
C&P	Fleet	Parts price increases/increased costs due to ageing fleet	0.835	Existing Cost Pressures
C&P	Waste Transfer and Disposal	Inflationary Increase on Landfill tax per tonne by £3.50, partially offset by increased EfW	0.051	Inflationary factors
C&P	Waste Management	RPI on contracts/residual waste costs	0.352	Inflationary factors
C&P	Waste Management	CMR Contract - Increased costs/reduced market value	1.010	Inflationary factors
C&P	Fleet	Operating Leases new waste vehicles	0.695	New Expenditure Commitments
Corporate	Utilities	Energy & water cost inflationary increases	7.900	Inflationary factors
Corporate	Non-Domestic Rates	Impact of 2023 revaluation on rateable value of council properties	1.270	Legislative Change
E&L	Highlife Highland	Subsidy required for 23/24	2.404	ALEO support costs
E&L	ASN	Addressing structural budget pressure within ASN budget met by one-off means in 2022/23	3.826	Existing Cost Pressures
H&SC	Allowances	Increasing allowances for fostering, adoption and kinship care as part of investment strategy	1.306	Investment
I&E&E	School and public transport	Cost of new bus contracts, including removal of covid one-off funding of £1.8m which is a recurring pressure	8.000	Inflationary factors
I&E&E	Harbours	Reduced Income from Harbour dues	1.000	Covid19 - Residual income Impact
P&H	Catering	Ongoing impact of reduced catering income in non-school settings	0.200	Covid19 - Residual income Impact
P&H	Property Maintenance	Anticipated contractual increases in the following contracts to be reprocured in 2023/24: Grease Traps, Mechanical Ventilation, Moveable Walls & Sliding Folding Partitions, Automatic Doors, Compliance, Swimming Pool Maintenance, Fire & Security	0.275	Inflationary factors
P&H	PPP Schools and Wick Campus	23/24 Contractual Cost inflation- contractual clauses have annual inflation linked to RPI/RPIX	2.031	Inflationary factors
P&H	Staffing Resources	PPP Handback Audits	0.030	New Expenditure Commitments
P&H	New School Provision	New Ness Castle Primary School - CCFM (£298k) and servicing costs (£25k)	0.323	New Expenditure Commitments
P&H	New School Provision	New Early Years facilities property running costs- rates, heat pump servicing, fire alarms	0.850	New Expenditure Commitments
R&F	Audit Fees	Unbudgeted 12.5% increase in 22/23 audit fee and assumed 5% increase in 23/24	0.077	Inflationary factors
VJB	Valuation Board	Anticipated requirement for increased requisition as impact of removed funding for valuation appeals	0.100	Legislative Change

Total

**32.862**

## **Budget Challenge: Engagement and Emerging Messages**

**December 2023**

1. The Council's budget engagement challenge was launched on 17 November 2023. There were two strands:
  - Budget Simulator – allows members of the public to make choices to try and balance the Council's budget. Focused on the 2024/45 budget, the simulator asks people to reduce different areas of the budget or increase income, through fees and charges or Council Tax, to meet the budget gap of £61.7m. The simulator sets out the implications of any reduction; the greater the reduction, the greater the impact. There is also the option to increase spend in different areas, however any increase will result in a larger gap to fund.
  - Budget survey – the survey is a different way for people to have their say. This asks for views on prioritisation of services; what services are most important to people and where there could be reductions. It also seeks views on increases in charges, for new ideas on income generation and how the Council can change what it does. Two separate versions of the survey are available, one for individuals and one for groups and organisations.
2. In addition to the above external strands, there is a staff suggestions page, which was launched in October on Staff Connections, to gather views and ideas from staff. Staff have also been encouraged to complete the simulator and survey.
3. *Promotion*

The Budget Challenge has been promoted on the Council's website and social media channels, as well as through our community group network – including community councils and parent councils, to parents through schools and through our partner organisations, for example it has been circulated through High Life Highland's distribution network. Distribution has been targeted at key representative groups, recognising that not everyone will wish to engage but understanding the importance of gathering the perspective of key groups such as younger people, older people and people with disabilities. The survey has also been made available in hard copy in service points and libraries.
4. *Levels of engagement*

At the end of Thursday 7 December, there has been good visibility of Budget pages and supporting information across the different platforms. There have been 3.4k views of the Council's animated video about the budget and 6.7k of the



Council leader's video encouraging participation in the simulator. We also reached audiences on X (Twitter) with content being seen a total of 6.1K times, and 2.3K times on LinkedIn.

The Council has the biggest presence on Facebook, (with over 43,000 followers, the majority based in Highland), so it is important that we are engaging with our followers on this platform. Our content related to the budget has been viewed 60.4K times on Facebook, reaching an average of 7K users per post. To measure our success, we can look at our average engagement rate by reach (ERR) which gives an indication to how well our audience interacts with our content. The campaign gained an engagement rate of 5.3% which is a very good result as the benchmark for this metric on Government accounts for November 2023 is 1.6% ([Hootsuite](#)).

Posts included in this campaign signposted to key assets including the Council's budget webpage (over 1300 hits), news releases, videos, and the budget simulator and survey. Our audience were encouraged to seek further information and to take part in the budget challenge to help inform budget proposals and decision-making and through Facebook this has generated 932 clicks through to the simulator and budget pages.

5. There have been 429 completed simulator responses received (Friday 8 December) and 1,887 individual surveys completed and 28 group surveys. The simulator and survey remain open until Christmas. In particular, this is to support groups to respond over this period.
6. When the simulator was last used (January 2017), it was open for a similar period and generated just over 1,000 responses. However, at that time, the challenge was to find address a budget gap of £14m. A number of the responses to this year's simulator, reflect the scale and difficulty of the current challenge.
7. *Emerging messages*  
The following sets out some of the emerging messages from the simulator and also the findings from the budget survey. It should be noted that detailed analysis will follow in the coming weeks and following close of both the survey and simulator at Christmas. In particular, this will include analysis considering whether there are differential responses across demographic groups.
8. In the Simulator, there were 5 separate categories within which individual reductions could be made. The following sets out the average percentage reduction across each of these categories as of 8 December 2023. It should be noted that there are variations across the functions within these categories but also whilst the average reduction in budget is around 7% at present, the monetary scale and impact varies considerably across the individual functions.

Category	Average % reduction
Supporting children	7.27%
Supporting adults and communities	6.89%
Infrastructure and assets	7.37%
Support and corporate services	10.57%
Environment and waste	6.99%

(at 8 December 2023)

9. When considered alongside the early messages from the survey the following observations could be made:
  
10. **Prioritisation**
  - When balancing the budget in the simulator, reductions are being made across all functional areas. The lowest % reductions are seen in maintaining roads/winter gritting and kerbside refuse collections which mirrors those services identified as most important in the survey.
  - The greatest % reductions identified in the simulator relate to support for communities, economy and support for business and almost all of the functions across the support and corporate services category – including service points/service centre, Members and ICT contracts and support. A number of these are mirrored in the survey feedback, where service points and support for business/investment at present are regarded as amongst the least important to people and where the public would identify reductions could be made. This is also seen along within advice on benefits, trading standards and ground maintenance.
  - In the main, the services which people appear not to prioritise as much are those that are least visible and serve specific sectors of our population, in particular, the most vulnerable.
  
11. **Income**
  - So far, people are more likely to select a higher increase in Council Tax on the simulator than those completing the survey – Council tax was seen as a balancing figure.
  - **In the simulator, where Council Tax is applied to balance a budget, on average people have selected 9.02% increase in Council Tax to achieve the savings target.** By contrast, those completing the survey, are more likely to set a Council Tax of a lower amount, as the table below illustrates. It should be acknowledged, that those completing the survey are identifying a figure without the context provided by the simulator, of the requirement to balance a budget.

What do you think would be an acceptable increase in Council Tax for 2024/25?	% of respondents
5%	68%
7.50%	14%
10%	13%
12.50%	2%
15%	2%
16% or more	2%

N=1,718 (at 8 December)

- People are more likely to select a higher increase in income in the simulator than those completing the survey. Those using the simulator were asked to apply a general increase in fees and charges across all strands of income generation. **On average, the % increase in fees and charges (at 8 December) was 10.42%.**
- The survey allows for the opportunity to ask broader questions regarding income generation. People completing the survey were more likely to support the lowest level of increase in income (2.5%) for more 'people centred' services e.g. burials, cremations, school meals.
- There was greater acceptance of higher increases in income across EV charging, discretionary planning fees, harbour fees, registration fees for weddings and car parking at visitor locations.  
(at 8 December 2023)

What would be an acceptable increase in charge for the following areas	2.5%	5%	7.5%	10%	15%
<b>Electrical Vehicle Charging Points</b>	33%	25%	15%	12%	15%
Car Parking in Towns/City	50%	25%	9%	8%	8%
Car Parking at Visitor Attractions	35%	28%	14%	12%	13%
Discretionary Planning fees (e.g. pre-planning application and advice)	34%	27%	16%	11%	12%
Garden Waste Bins	52%	23%	10%	7%	7%
School Lets Costs	54%	24%	10%	7%	6%
Bulky Uplifts	40%	29%	15%	8%	9%
Burials	60%	21%	10%	5%	5%
Cremations	62%	20%	9%	5%	4%
Harbour fees	27%	30%	21%	9%	13%
School meals	70%	16%	7%	4%	4%
Registration fees for conducting weddings	23%	28%	22%	11%	17%

- People were more likely to support a combination of both increasing charges and reducing or stopping services.

## 12. ***Suggestions from staff***

*Please note the following is a summary of emerging suggestions and themes from staff. Work is progressing to consider all of the individual responses received.*

### *Efficiency*

- Doing things internally through existing staff teams rather than contracting externally, e.g:
  - Vehicle repairs
  - Grass cutting
  - Building repairs – trades
  - In house driver training
- Renegotiate contracts for goods and limit choice
- Reduce use of Council vehicles
- Improved contract management to drive out efficiencies
- Review vehicle service need – swap vans for small electric cars
- Streamline BLA payments to a rolling basis to reduce overheads
- Redistribution of resources between schools – learning resources, desks etc – don't buy new
- Change approach to internal recharging
- Tighter project management to drive out efficiencies and savings
- Remove freephone numbers
- Use of Digital
  - Use of AI for simple procedures e.g. missed bins, garden waste permits, reminder rent arrears
  - Chat bots to support front line customer service and Out of Hours queries
  - Digitise annual pupil census – reduction in time and paper
  - How to guides for Council tenants on You Tube, not in paper
  - Text reminders for Council Tax bills, not letters
  - Hold more meetings online and reduce travel and travel time

### *Council Assets*

- Energy
  - Better control of heating – should only be on when needed in buildings and individual rooms
  - Invest and upgrade heating/water systems to make them more efficient, controllable, reducing bills and reducing repairs to current systems

- Review approach to out of hours property repairs to ensure only emergencies are dealt with
- Reduce number of void properties
- Better understanding of council owned land and buildings – to dispose, to maximise income

#### *Staff Resource/Working Practices*

- Greater focus on continuous improvement to drive out efficiency
- Service redesign – align teams where there is overlap in roles. Opportunity to reduce management
- Review management structure and reduce duplication – have managers covering broader areas
- Pilot 4 day/32 hour week, with associated reduction in pay
- Increase hybrid working – greater efficiency in staff working time, reduction in buildings, reduction in heating buildings, reduction in travel
- Broaden spans of control and reduce tiers of management
- Reduce sickness entitlement
- Encourage additional annual leave purchase

#### *Income*

- Charge for FOI requests
- Introduction of tourism tax
- Improve registration venues to encourage weddings within Council owned premises
- Houses which have been extended in last 20 years should be re-banded for Council Tax
- Wind farm construction to contribute to roads fund
- Charge coaches for parking in City/Town Centre locations
- Offer chargeable factoring service for new housing estates
- Charge 200% Council Tax on second homes
- Provide facilities for motorhomes to park overnight in existing car park locations and create new facilities

#### *Different approaches to service delivery*

- Introduce community volunteering scheme for key areas of local support e.g. grass cutting, litter picking
- Use video calls rather than home visits
- Rationalise sports/leisure facilities – a lot of facilities and not statutory
- Greater use of digital technology for service delivery – streamlining processes/reducing paperwork
- Review school meal/snack offering
- Develop new operating model for central support services – no duplication across services

13. **Suggestions from the public**

*There are a number of questions contained within the budget survey that seeks views from members of the public on more efficient ways of working, ideas for income generation and other ideas on how the Council can work differently in the future. The following provides examples of some of the suggestions emerging from this feedback.*

*Structure/Ways of Working*

- More joined up teams, reducing duplication and improving service delivery
- Streamlining administration to avoid duplication
- Review salaries of senior staff and redirect resources to frontline
- No working from home – all staff office based to improve performance
- More online meetings – less travel/travel time
- Employ more trades inhouse rather than external contractors
- Pathways to employment for key roles to reduce agency spend
- Reduce overtime
- Automate more processes to reduce staff
- Reduce sick pay/pension entitlements
- Better use of existing staff than outsourcing

*Use of Council Assets*

- Fewer vehicles
- Reduce building footprint – support flexible working, reduce travel, maintenance, energy use
- Stop subsidising buses with low passenger numbers
- Modernise remaining buildings to be more energy efficient
- Mothball schools with low numbers

*Approaches to Service Delivery*

- Close service points and libraries and do more online
- 4 day week
- Increase class sizes in schools
- Outsource/partner with other Local Authorities for back office functions
- Reduce duplication and overlap in services – if third sector providing then the Council shouldn't
- Need to work in partnership
- Review how commercial waste from domestic holiday lets is collected
- Invest in services for young people as a preventative measure
- Reduce duplication of services across areas – more centralised services

*Income generation*

- Introduction of visitor levy
- Charge for motor home waste disposal

- Sell advertising on Council assets – sponsorship of local facilities e.g. play parks
- Fines for those disposing of motorhome waste outwith designated locations
- Sell land and assets surplus to requirement
- Charge for car parking across the whole area
- Build assets with renewable energy incorporated
- Create campervan aires
- Commercialising skilled Council services e.g. solicitors, grant application, graphic design, employability trainers, trades to private business, other public agencies and other Local Authorities
- Increase planning fees for large scale applications
- Improve income from windfarm schemes to the Council and to local communities for development and support
- Make car parking charges mandatory in all car parks, not just invitation to pay
- Charge for second homes
- Invest in tourism initiative to be able to charge for
- Offer premium digital services that are chargeable.
- Invest in renewable energy projects to generate revenue.
- House building for market rent.
- Council catering vans/offers at key tourist locations.
- Deliver and charge for out of school and holiday activities.
- Develop merchandise to sell in Council venues/tourism hot spots

### *General*

- Focus on statutory service provision
  - Manage expectations with the public about what is achievable and deliverable
-

## General Fund Reserves Strategy

### 1. Introduction

- 1.1 The Council is able to hold reserves on its Balance Sheet. The holding of reserves is acknowledged in statute.
- 1.2 Beyond the legislative position for reserves, it is important that the Council has a reserves strategy, to support the holding of reserves, the reasons for doing so, and the level of reserves held.
- 1.3 This reserves strategy is embedded in the principles of prudence and financial sustainability. This strategy recognises that reserves are an important part of the Council's financial management planning, and reserves are an important means to manage risk. This strategy also recognises that reserves are finite, and the significant risks and implications for the Council if reserves are allowed to fall to too low a level, or are depleted.

### 2. Context

- 2.1 Reserves typically fall into the category of useable and non-useable reserves.
- 2.2 The focus of this strategy is on useable General Fund reserves only, given this is the aspect of the Council's reserves which the Council has both discretion over, and therefore a need to have a clear strategy for.
- 2.3 Non-useable reserves relate to accounting adjustments held on the balance sheet and can't be used to support expenditure or for budgetary purposes. These are therefore not covered by this Strategy.
- 2.4 There are useable reserves which are not General Fund revenue. They relate to the Housing Revenue Account, Capital Funds, the Insurance Fund and Repair & Renewal Funds. There are existing specific legislative stipulations and restrictions on the purpose and use of these funds, and as such this Strategy does not extend to these funds.

### 3. The Cipfa FM Code

- 3.1 The Council has adopted the Cipfa Financial Management Code of Practice. Within which there are a number of financial management standards that are requirements through adoption of the Code. With reference to reserves, the Code states that:

*Financial Management Standard (J): reserves are a recognised and intrinsic part of financial planning and budget setting.*

*Financial Management Standard (K): The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.*



*Financial Management Standard (K): The budget report should include details of the earmarked reserves held, and explain the purpose of each reserve, together with the estimated opening balances for the year, details of planned additions/withdrawals and the estimated closing balances.*

*Financial Management Standard (K): A well-managed authority, with a prudent approach to budgeting, should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed.*

#### **4. The Reserves Strategy**

4.1 Through this Strategy, the Council:

- Will ensure through its adoption of the Cipfa FM code it implements the relevant financial management standards and those relating to Reserves;
- Will hold and account for reserves in compliance with relevant statute, accounting standards and Codes of Practice;
- Will hold reserves for the purposes of:
  - A general contingency (non-earmarked reserves) to provide a suitable and minimum level of reserves to support budget planning and risk management. The Section 95 officer will recommend that minimum level of general non-earmarked reserves. For the purposes of this strategy, that sum should be no less than 3% of the General Fund net revenue budget (which at the date of this strategy would equate to a sum of £21m).
  - Earmarked reserves for specific requirements related to external funding arrangements, or other external requirements. Examples may include the holding of Devolved School Management reserves, held as per the requirements of the national and local schools DSM scheme.
- May also hold reserves for the purposes of:
  - Investment, service re-design and transformation (earmarked reserves). The Council recognises that reserves can be a valuable tool as part of its strategic, operational and budgetary plans. Specific earmarked sums may be held to support the Council's objectives in this regard.
  - Managing timing and cash-flow (earmarked reserves). The Council may earmark reserves as a means of managing incomes and expenditures across financial years. This will only be for specific and agreed purposes, noting that the Council does not as a norm provide any year-end carry forward arrangement for its budget holders (other than for Schools through the Schools DSM scheme – covered above).

- Budget setting and financial planning. The Council may hold reserves to support financial planning. The Council recognises that use of reserves to support the Council's budget plans and balance annual budgets, are short-term measures and not sustainable. The use of reserves to balance the budget does not reduce any financial gap being faced, rather they provide time for the Council to implement other sustainable measures to balance its budgets. The Council recognises that reserves are finite, and prudent use, aligned with its financial planning approach is necessary.
  - Such other reserves as may be deemed appropriate by and on the advice of the Council's Section 95 Officer.
  - Recognises that not all reserves are cash-backed, and the use of reserves may therefore incur interest costs to finance the cashflow for any agreed use of those reserves (e.g. any agreed use such as the expending of monies or use for budget setting). Prudent financial management requires full consideration of any implications associated with use of reserves.
- 4.2 This Strategy, once adopted, will apply on an ongoing basis, until/unless it is reviewed or revised through further formal consideration by the Council.

Date: November 2023

Brian Porter, Head of Corporate Finance and Section 95 Officer

## Budget Timetable

Month	Officer	Stakeholder	Formal/Governance
SEP 2023	Budget/financial assumptions and modelling.	<u>Budget consultation and engagement:</u> Outline approach reported to Council.	<u>14<sup>th</sup> Sept Council:</u> Capital Programme approved. Financial outlook scenario planning.
OCT 2023	<u>Verity House and Fiscal Framework:</u> Ongoing national level consideration.	<u>Staff Budget Suggestions:</u> online staff suggestion portal goes live.	<u>26<sup>th</sup> October Council:</u> Updated financial outlook, multi-year planning approach, budget timetable.
NOV 2023	<u>Budget Proposals:</u> Development of saving proposals. Identification and review of pressures and budget adjustments.  Officer Budget Workshops and development of budget propositions.	<u>Phase 1 budget engagement:</u> Broad engagement on themes/priorities. Launch of budget simulator and budget engagement.  <u>Staff Partnership Forum:</u> staff side engagement 14 <sup>th</sup> November.  <u>22 November - All member budget briefing session:</u> Budget outlook update and budget planning approach.	
DEC 2023	<u>Budget Proposals:</u> Development of saving proposals. Identification and review of pressures and budget adjustments.	<u>Budget consultation and engagement –</u> consolidation and analysis of responses.	<u>5 December Redesign Board:</u> updates on redesign, asset management, income generation.  <u>14 Dec Council:</u> Budget update, fiscal flexibilities, reserves strategy, budget consultation and

			<p>engagement feedback.</p> <p><u>Scottish Government 19 &amp; 21<sup>st</sup> December:</u> 19<sup>th</sup> December Publication of Draft Budget for 2024/25</p> <p>21<sup>st</sup> December release of Finance Circular detailing grant settlement at individual Council level</p>
JAN 2024	<p><u>Budget Proposals:</u> Finalisation of proposals. Risk and impact assessment screening.</p>	<p><u>Phase 2 budget engagement:</u></p> <p>All member briefing sessions – fiscal flexibilities including PPP accounting, analysis and feedback on budget consultation and engagement output.</p>	<p>19<sup>th</sup> January – end of consultation phase for Local Government Finance settlement circular.</p>
FEB 2024	<p><u>Budget Proposals:</u> Finalisation of proposals. Risk and impact assessment screening.</p>	<p>Final engagement on budget proposals and in advance of 29 February Council.</p>	<p><u>Scottish Parliament:</u> 27th February – provisional date for Stage 3 of the 2024/25 Budget Bill.</p> <p><u>29 February Special Council:</u> Budget and Council Tax setting.</p>